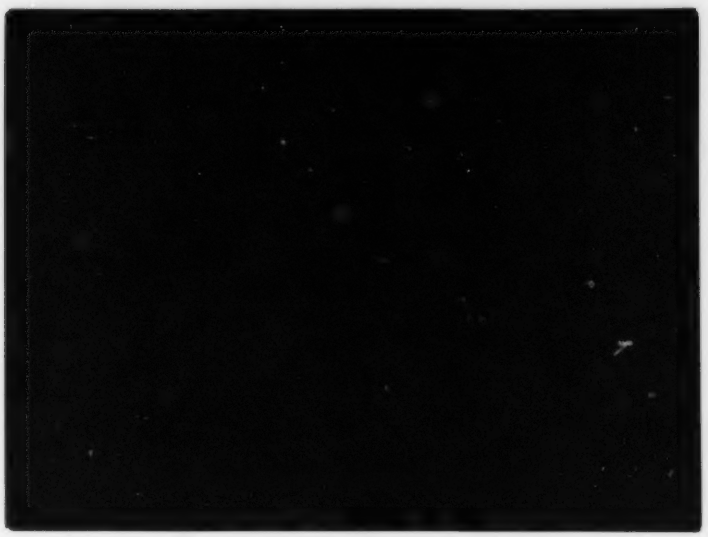

Canadian
Advisory Council
on the Status of Women

Conseil
consultatif canadien
sur la situation de la femme

89-03963/

BACKGROUND PAPER

WOMEN AND INCOME TAX REFORM

by Maureen Maloney

October 1987

Canadian Advisory Council on the Status of Women

Prepared for the
Canadian Advisory Council on the Status of Women
P.O. Box 1541, Station B
Ottawa, Ontario
K1P 5R5

Background papers are prepared to inform Council members, the general public, and parliamentarians on issues being considered by the Council. They are designed to provide an initial analysis on a subject and to generate public discussion. The information contained in this background paper was provided by the author and does not necessarily reflect the views of the Council.

Cette publication est aussi disponible en français.

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

OBJECTIVES AND ASSUMPTIONS 1

THE PERSONAL INCOME TAX SYSTEM 4

- **Appropriate Tax Unit** 4
  - Spousal Tax Exemption 10
  - Transfer of Unused Credits 14
  - Refundable Credits: Child Tax and Sales Tax 15
  - Attribution Rules 15
- **Child Expenses** 17
  - Child Dependency Costs 18
  - Child-Care Costs 20
- **Alimony and Maintenance Payments** 22
- **Women as the Poor** 24

CORPORATE TAX REFORM 27

- **Women as Employees** 27
- **Women as Entrepreneurs** 28

SALES TAX REFORM 29

- **Manufacturers' Sales Tax** 30
- **Income Taxes or Sales Taxes?** 31
  - Equity Considerations 31
- **Multi-Stage Sales Tax** 32
- **The Options** 33
  - Federal Goods and Services Tax 34
  - Federal Value-Added Tax 35
  - National Sales Tax 35
- **Analysis** 36
  - Exemptions or Credits? 36
  - Women as Entrepreneurs 40

CONCLUSIONS AND RECOMMENDATIONS 40

NOTES 45

EXECUTIVE SUMMARY

The income tax system contains a number of provisions that are discriminatory and detrimental to women. This background paper sets out and analyzes those provisions, making recommendations for change where appropriate.

The first section of the paper reviews the general goals of the Canadian tax system and the governing principles to be applied to tax measures. Usually considered to apply equally to men and women, these goals have often been sought only for men. Because of this, the author deliberately re-evaluates and re-interprets these objectives to apply specifically to women. With this framework in mind, the current income tax system is evaluated to see to what extent these goals are currently being achieved and, more important, how they might be met in the future.

Among the specific issues addressed is the increasing use of the marital unit as the basis for eligibility for certain kinds of tax relief. The author reaffirms individual taxation as the best basis of taxation. Marital unit taxation is shown to be discriminatory to women, by reinforcing the economic dependency of wives on husbands and by increasing the opportunity costs of work outside the home. All taxation provisions that have these effects are discussed and analyzed. These include the spousal tax exemption, the transfer of unused credits between spouses, the spousal RRSP, the child tax credit, the sales tax credit, and the attribution rules. The author recommends that these provisions be revamped or eliminated, with one exception — the attribution rules.

The expenses associated with raising children are discussed in terms of dependency costs and child-care costs. It is recommended that all tax relief relating to child dependency should be converted to diminishing refundable tax credits and therefore weighted in favour of low-income families. Child-care costs should be extended to cover the costs of care of the elderly and disabled. They should also be converted to credits and increased considerably if the government does not provide nation-wide, universally accessible, publicly funded child care. Furthermore, tax incentives should be offered to encourage

employers to provide child-care facilities. Incentives could take the form of accelerated depreciation allowances for capital equipment purchased for child-care facilities. If child care is provided by employers, subsidized or free child care should not be included in the employees' income as a taxable benefit. If subsidized child care is not provided by employers, tax credits should be allowed within prescribed limits.

Next, the tax treatment of alimony and maintenance payments is reviewed and found discriminatory. The inclusion of these payments in the income of the recipient (usually the ex-wife) and the deductibility of the payment for the payer (usually the ex-husband) is questioned. The inclusion of child support payments as taxable income in the hands of the mother is highlighted as especially unfair. Recommendations are made to ignore these payments, both as income and as a deduction, in excess of any allowance given during the existence of the marriage. At the very least, child support payments must be excluded from the mother's income and the tax credit shared proportionally, where appropriate, between the mother and father. If the system is to remain intact, the deductibility of lump sum payments, spread over a five-year period, should be allowed.

Finally, the personal income tax system is discussed as it affects the poor. As women are disproportionately represented among the poor, these measures are of real importance to them. To the extent that high-income earners are favoured by the *Income Tax Act*, women for the most part are disadvantaged. This happens directly and most visibly when, because of lack of money, they are unable to take advantage of tax provisions. Indirectly, women are affected by the fact that other taxes will have to be increased to make up revenues lost as a result of tax reform. The burden of these other taxes, like sales taxes, are for the most part borne by woman. Reforms to the corporate taxation system are also discussed to the extent that they might affect women as both entrepreneurs and employees.

The concluding section analyzes proposals for changing the federal manufacturers sales tax into a multi-stage sales tax. The options proposed by the government in the *White Paper on Tax Reform* are outlined and analyzed.

The author takes the view that the sales tax system should not be used extensively, as proposed, to replace personal income tax. Sales taxes are regressive. The possibilities for reducing regressivity by using exemptions from the tax base or giving tax credits are explored. Both types of relief will probably be required if sales tax reform goes ahead as planned.

OBJECTIVES AND ASSUMPTIONS

There is perhaps no better place to start analyzing the appropriate objectives of the income tax system than to repeat three of the goals enunciated by the 1966 Royal Commission on Taxation (the Carter Commission).[1] The goals of the Canadian tax system were:

- to maximize the current and future output of goods and services desired by Canadians;
- to ensure the equitable distribution of output; and
- to protect the liberties and rights of individuals.

The first purpose can be interpreted to mean that the taxation system should aid Canada in fulfilling its economic potential. Of necessity this must include measures to create the conditions for full and unimpeded participation by a potential 50 per cent of its work force — women — who are not now so encouraged. The second goal is fair distribution of goods and services. For women, who are disproportionately represented among the poor, this is an important objective. Although the income tax system by itself can never solve the complex problem of poverty, at a minimum it should not worsen it by unduly favouring high-income earners over low-income earners. The feminization of poverty must be arrested.

The third goal calls for the protection of individual freedoms. From the perspective of women, at the very least this must entail removing inequities, both overt and systemic, from the *Income Tax Act*. Indeed, achieving equality of individuals argues in favour of provisions that benefit women to ensure their full participation in Canadian society and the workplace. Past inequities must be remedied and righted.

These objectives (though not this interpretation of them) were enunciated in 1966. Twenty years later we are still far from achieving any of these goals through the taxation system. In the midst of major tax reform it seems appropriate to re-evaluate why we have not done so and, more important, to assess the options available for doing so.

First, it is worth reiterating the principles that most tax experts agree should govern any tax provisions or policies. Most tax experts subscribe to the following criteria: equity, neutrality, economic efficiency and simplicity. I would add a fifth, **equality**.

The Carter Commission stated, as have successive governments, that equity must be given highest priority. Equity in tax terms has two meanings: horizontal and vertical. **Horizontal equity** requires that those in like circumstances be treated equally. **Vertical equity** requires that those in differing circumstances be treated appropriately, according to those differences. This provides the justification for progressive taxation (differential rates of taxation as income increases). **Ability to pay** is an obvious adjunct of both types of equity and a recognition that some people in society are more easily able to contribute than others. It may also be a recognition that the distribution of wealth prior to tax is unequal and that this should be reflected in taxation provisions.

Another standard that should be applied to the income tax system is equality. **Equality** is not quite the same as equity and deserves inclusion in the list, although it has not been included in the past. Equality encompasses a broader perspective than simply economic well-being, focusing on other social factors, such as age, sex and race, that are not necessarily inherent in traditional tax equity terms. As such, equality is an independently desired objective and, indeed, with the enactment of the *Canadian Charter of Rights and Freedoms*, it may be a required one.

There are two types of equality: rule (or formal) equality and results (or substantive) equality. Rule equality is satisfied by ensuring that there are no overt discriminatory sections in the *Income Tax Act* (the Act). Results equality requires more: the removal of systemic discriminatory provisions and, potentially, affirmative action. For example, provisions in the Act that result in systemic discrimination, such as the married or spousal exemption, would have to be amended, an argument examined in some detail later in this background paper. Provisions furthering equality would also have to be implemented, for example, a $500 employment expense credit for taxpayers entering or re-entering the work force after an absence of a few years. Because they tend

more than men to be intermittent participants in the outside work force, women would be the primary beneficiaries of this tax benefit. It is time the income tax system recognized the needs of women more fully.

At first glance, the **neutrality** principle has more to do with economic efficiency, although it also relates directly to social justice. The concept of neutrality requires that all types of income and activity be taxed equally to ensure that taxpayers' choices are not distorted. Distortion of economic and social choices can result in two disadvantages for society. First, it may result in a misallocation of resources. This happens when money is taken out of activities that are not treated favourably by the tax system and put into activities that receive preferential tax treatment. It is impossible for the government to know which other activities will suffer because of the shift to tax-preferred activity; as a result, other desirable activities may be affected adversely. Governments try not to interfere in the economy through the income tax system because individuals lose in economic terms more than the government gains in additional tax revenues. This difference is referred to as **the excess burden of taxation**.

The second concern that the principle of neutrality attempts to address is social justice. Individuals may distort investment or lifestyle choices if the tax system encourages them to make choices that are not necessarily in their best interests; for example, individuals may choose cohabitation over marriage or vice-versa because of the tax treatment accorded single and married people. The search for neutral principles characterizes the classical liberal commitment to individual autonomy: that people should be as free as possible to define and pursue their own conception of the good. Except in cases of justifiable paternalism, when the state assumes the power to direct the life plan of individuals, the state fails to respect individuals' capacities as rational beings and "does not take seriously the distinction between persons".[2] Certainly this appears to be true of the attitude to women implicit in the Act.

Mention should also be made of **economic efficiency** as a criterion. This principle requires that taxes be applied in such a way as to ensure that economic gains are maximized. Obviously, this might fly in the face of the

neutrality principle. It might also require the correction of imperfections in the market system by the imposition of penalties or the awarding of bonuses. Furthermore, it might entail taxing items or activities for which the demand is inelastic, such as primary workers' labour, more heavily than those for which the demand is more elastic (secondary workers' labour). This would reduce substitution effects and enhance economic efficiency because secondary workers with relatively high elasticity of supply face relatively high effective tax rates.

Finally, the income tax system should be simple. **Simplicity** is required by the taxing authorities so that the tax system remains relatively inexpensive to administer. It is also necessary for taxpayers to enable them to understand and comply with the provisions that affect them; this often entails ensuring visibility and stability in the tax system. The goal of simplicity should always be kept in mind, although it is becoming increasingly difficult to achieve in today's complex economy. Simplicity may often be gained at the cost of equity. Whenever the Act attempts to take into account individual circumstances or to exempt certain items, the system becomes more complicated. When simplicity can be achieved without creating inequity it should be. But when a choice between equity and simplicity has to be made, equity must prevail, provided the administrative costs of doing so are not prohibitive.

With these objectives and criteria in mind, recommendations will be made to amend the *Income Tax Act* so as to meet some of the goals of women more appropriately and adequately.

THE PERSONAL INCOME TAX SYSTEM

Appropriate Tax Unit

One of the perennial questions of tax policy is which unit should be adopted as the appropriate base on which to levy taxation. The issue is also a current one. In its report on tax simplification, published on June 17,

1986, the House of Commons Standing Committee on Finance and Economic Affairs recommended that

> the Minister of Finance consider the advisability of amending the *Income Tax Act* to allow spouses the opportunity of filing joint income tax returns.[3]

This could be a first step toward introducing a tax unit based on the marital relationship, although in its *White Paper on Tax Reform 1987* the government reaffirmed its intention to retain the system of individual filing.

Despite this reaffirmation, use of the marital unit in the Canadian tax system seems to have increased in recent years. A number of important provisions assume a marital unit, including the spousal tax exemption, the transfer of unused deductions between spouses, the attribution rules, the refundable child tax credit, and the refundable sales tax credit. Some of these issues will be dealt with separately and in more detail at the end of this section.

The Canadian Advisory Council on the Status of Women is of the view that the *Income Tax Act* should reduce to a minimum its reliance on marital status as a criterion for assessing tax liability or eligibility for tax benefits. The existence of such provisions creates real opportunity costs for secondary workers (usually the woman), distorting considerably and unfairly the choice between home and market production. In a society heading, albeit hesitantly, into an era of equality, these costs are becoming increasingly unacceptable. Too often the focus has been on possible inequities between families, at the expense of equity within the family.

The choice of the tax unit usually revolves around three possibilities:

- the individual;
- the marital unit; or
- the family unit.

Other tax units — for example, co-operatives — could of course be devised. The essential characteristic is the sharing of economic resources, resulting in

economies of scale and therefore increased ability to pay. If a taxpayer's involvement in a certain type of living arrangement increases her economic well-being, it also increases her ability to pay taxes. According to advocates of unit taxation, provided the arrangement is verifiable and stable enough to make enforcement easy, this is the unit upon which tax should be levied.

The current tax unit in Canada is the individual. Tax levied on the basis of individual income and marital status has, at first glance, little effect on the tax imposed on an individual. Indeed, to bolster this neutrality the Act provides detailed and complex rules (the attribution rules) to ensure that the integrity of individual taxation is not invaded by income splitting.

Even though the Act takes considerable care to preserve the concept of individual taxation in this manner, it has many provisions that specifically recognize the tax unit. Usually this is favourable from a household perspective but less so from the perspective of the low-income or no-income spouse (most often the woman). Favourable recognition occurs in the spousal exemption,[4] the permitted transfer of unused tax relief from one spouse to another,[5] contributions to spousal RRSPs,[6] and tax-free rollovers on the transfer of property from one spouse to another.[7] The marital unit is also recognized for different reasons, and with less favourable results, in curtailing the principal residence exemption from capital gains tax,[8] the child tax credit,[9] and the refundable sales tax credit.[10]

Why then this movement to marital unit taxation? What advantages and disadvantages are there in the choice of one system or another? What type of system would be required to introduce taxation based on the marital unit? Marital unit taxation could be introduced in one of two ways: one would favour marriage, the other discourage it. Each system has a different goal and hence a different rationale.

Marital unit taxation does not have to imply a heavier tax burden. It could favour marriage, for example, by adopting the *quotidien* system of France or the U.S. system, which allows income splitting between spouses. Couples aggregate their income and split it equally between them, in effect

doing what the attribution rules in Canada now prohibit. The tax advantage for any particular couple varies according to the original income split between them. A couple with one income earner would gain the most from this arrangement, while a two-income couple with equal incomes would gain the least.

The adoption of such a system would have to be justified on grounds other than equity, based as it is on social preferences. Adherents of the system would have to argue the necessity of marriage as a social structure that should be encouraged by tax incentives. It is unlikely that it could gather much support on this basis. Similar provisions in the United States have encountered a great deal of criticism.[11]

The other type of marital unit taxation, and the one most often advocated, entails two different rate schedules. One progressive rate scale would apply to the aggregated incomes of married couples, while single individuals would be taxed on a different, more steeply progressive scale. This would allow the greatest flexibility, because rate bands could be geared specifically to joint incomes. A harsher alternative would be a single rate system for both individuals and married couples (as in the case in England, although there is a generous "married man's" allowance).

Whether one scale is used or two, a married couple would be taxed at a higher rate than they would be if each were taxed as an individual. The effect of such a system, therefore, is to exact a "tax on marriage". The extent of the extra tax burden depends on the steepness of the progressive tax rates; the differential between the two scales; and the existence of other offsetting deductions, credits, or other tax relief for married couples.

Supporters of taxation based on the marital unit argue that it is the tax unit best able to reflect the concept of equity, both horizontal and vertical. If the ability-to-pay principle is the guiding light for fair tax reform, then tax should be levied on the unit that measures economic well-being and resources most appropriately. Upon marriage, the theory goes, husbands and wives pool incomes and other economic resources and share expenditures. Based on the old adage that two can live more cheaply than one, this arrangement

is said to result in increased discretionary income and consequently increased ability to pay. In addition, a tax system based on the marital unit would simplify the provisions and administration of the Act considerably, eliminating the need for a number of complex provisions, particularly the attribution rules.

It is true that there can be, and often are, savings, both monetary and non-monetary, in sharing expenses in this way. Money is saved because only one car, one house, one vacuum need to be purchased. The economic savings of marriage have been estimated at between 32 and 35 per cent of comparable expenditures by unmarried individuals.[12] Non-monetary and non-discretionary outlays are also reduced. Only one spouse needs to do (or better still, both can share) cleaning, cooking, and other household duties. This reduction in non-discretionary expenditures either increases leisure time or reduces the cost of purchasing these services.

Yet this is not the complete story. Advocates of marital unit taxation make a number of uncertain and unverified assumptions. In particular, the argument rests heavily on the fact that married couples share income and perhaps even property. Available evidence does not bear this out. There is a chance that couples do share expenses and, to a lesser extent, income. The latter often depends on the size of income — families tend to share incomes less as income rises. Property is even less likely to be shared. Certainly most provincial family laws do not work on the assumption that property is shared equally by spouses during a marriage.

Even if couples did share resources in this manner, the income tax system should not coerce people into particular spending patterns or relationships. Clearly, the case has not been made to warrant introduction of taxation based on the marital unit.

Furthermore, there are compelling arguments against recognizing marriage in any way in the income tax system. The income tax system should remain neutral in its approach to the relationships of taxpayers. People must have the freedom to choose the type of living arrangement that suits them best, without tax losses or gains for choosing one type of arrangement over

another.[13] Moreover, and perhaps more important, recognizing the marital unit dredges up memories of the original reason for introducing marital unit taxation in England. Wives could neither contract nor hold property in their own name. Filing of joint tax returns for husbands and wives was a necessary adjunct to this refusal to recognize the economic role of women and their place in the public sphere. Any system based on such an unworthy and discriminatory history is unlikely to get much support.

More pressing in the present day are concerns that any recognition of the marital unit in the tax system raises the opportunity costs of work outside the home for the secondary worker in the marriage, most frequently the woman. Opportunity costs are the value of alternative resources and opportunities that must be sacrificed or forgone in order to pursue a particular choice. In tax terms, this means that the Act operates in such a way that it creates additional burdens or hardships if a certain choice is made. In practice, recognition of the marital unit has the effect of creating a tax bias for women against work in the market sector and in favour of work in the home. Tax reform must guard against such distorting provisions, as well as eliminate present inequities.

The effects of choices distorted by the tax system can be considerable and have far-reaching consequences. Encouraging women to choose the private sphere in this manner may account in part for the wage inequalities that exist in the market sector. Women specialize in skills used in the home, while men specialize in marketable skills. Incentives to do so are built into the income tax system. If women then enter the market sector, their skills are valued less highly than men's skills; as a result, women's wages are lower.[14]

It is imperative that any provisions that have the effect of forcing women into the household sector be evaluated carefully and in most cases repealed, with grandparent clauses where appropriate.

The *Income Tax Act* is detrimental to women who wish to work outside the home, especially if they earn only a small salary or work part-time. As most women who work outside the home fall into one of these

categories, the elimination or moderation of biases in the tax system is essential, albeit controversial. Among the *Income Tax Act* provisions that must be re-examined are the spousal (or married) tax exemption, the rules governing transfers of unused credits, the child tax and sales tax credits, and the attribution rules.

■ **Spousal tax exemption**

A working spouse is granted tax relief ($3,700 in 1987) if he (as is most often the case) has a spouse who earns little (less than $520 in 1987) or no income.[15] This relief is accentuated by a provision allowing the high-income spouse to include in his income taxable dividends received by his homeworker wife, in order to be eligible to receive the full amount of the spousal exemption.[16] Otherwise, dividend income would be deducted dollar-for-dollar from the tax relief available through the spousal exemption.

The proposal in the *White Paper* to convert the spousal exemption to a credit is welcome.[17] This would eliminate the absurd and inequitable effect of determining the value or dependency of the homeworking spouse by reference to the husband's marginal tax rate. This both demeans the wife and favours wealthy families. The change may mute some of the fiercest criticisms, but it would not remedy all the ills inherent in the provision. It would remain both inequitable and economically inefficient.

By assuming and reinforcing the woman's economic dependence on her husband, the spousal exemption is an unrealistic historical anachronism. It is also demeaning in its view of woman who work in the home, assuming that they are economic burdens on their husbands rather than productive people. The stigma attached to homeworking spouses was one of the reasons cited by the Royal Commission on the Status of Women for recommending a severe reduction in the amount of the spousal exemption.[18]

A woman does not become economically dependent as a result of marriage. If she decides to remain in the home it is because of the couple's personal preferences and a decision that her services will be more valuable to the household than an income earned outside the home. It is not a decision by the household that she should become a dependant (although this might be a subconscious patriarchal design). However, despite these strong arguments in favour of eliminating the provision (with a suitable grandparent clause for older women in the home), advocating the abolition of the exemption meets with a great deal of controversy.

Those who support maintaining the provision usually claim that upon marriage one spouse assumes an obligation to support the other financially. Even if this were true (and the divorce statistics hardly bear this out), such a statement does not provide adequate justification for the enormous subsidy (estimated at $1.3 billion in 1983[19]) that taxpayers contribute to spouses who claim the exemption, regardless of need or the activities performed by the spouse who stays at home.

Another rationale for the provision focuses on ensuring equity between one-income and two-income couples. The spousal exemption, it is argued, offsets the advantage of income splitting enjoyed by two-income couples. This notion completely disregards the value of untaxed imputed income earned by the homeworking spouse through her labour in the home. This same home production has to be performed by the two-income family, whether they do so at the expense of leisure or purchase the services in the market. Moreover, the exemption is arbitrary in its application. The extent of the advantage, if any, depends on the actual income split between the two-income couple. This hardly results in a more equitable system.

A more legitimate rationale is that the spousal exemption is the only public recognition given to the important contribution made by houseworkers in our society. There is, however, some irony in the fact that the payment (and thus the recognition) is given to the working husband, supposedly because he has to support the homeworking spouse. If the intention is to provide financial recognition for valuable work performed in the home, then the payment should

be made to the person who performs the services, the homeworking spouse. If the payment were delivered in this manner it could be a first step toward publicly funded household production. Achieving this ideal is probably a long way in the future. Indeed, at present the only way that work done in the home is likely to be recognized is by taxing its imputed value, an issue that will not be dealt with in this paper.

If public funding for work performed in the home were to be introduced, its application would undoubtedly (and in recessionary times justifiably so) be restricted to spouses who care for their young children or for an elderly or disabled family member at home. The provision could then be viewed as an attempt, admittedly small and ad hoc, at providing publicly funded child care. Yet this may have drawbacks in terms of raising the opportunity costs of work outside the home.

It should also be noted that because the spousal exemption is dependent on the amount of income earned by the wife, it may invade the wife's privacy. In effect, the wife is required to reveal to her husband the fact she has earned and the extent to which she has earned income in any taxation year. The husband has no such obligation. Accordingly the wife's privacy is invaded with no reciprocal requirements on the husband.

Another unfortunate aspect of the spousal exemption is the possible effect on the decision to work outside the home. When a secondary worker is choosing to enter the paid work force, the decision should not be affected by the worker's tax position. Yet this is far from the case. The spousal exemption is a further factor distorting the decision in favour of working inside the home.

If a woman can earn only a small salary outside the home or is able or wishes to enter the outside work force only on a part-time basis, any additional costs resulting from entering the labour market may negatively affect her choice. Extra costs will be incurred for travelling expenses, more clothes, more costly convenience foods and, potentially most important, child-care costs. Rea comments that "the literature . . . suggests that a two-earner family requires 18 to 30 per cent more after-tax income than a one-earner

family."[20] Start-up costs are particularly high, so much so that Rea concludes that "the marginal cost of increased earnings by the secondary worker might be small compared with the initial cost of the secondary worker's entrance into the labour force."[21] Additional costs may therefore weigh heavily in the decision to enter or re-enter the labour force. Yet the *Income Tax Act* is full of them.

One of the most obvious is the loss of the spousal exemption by the husband, causing a reduction in overall household income. This can have a very negative effect, especially when added to the other tax breaks forgone: the lack of tax on imputed household income, the loss of ability to transfer unused tax credits, and the reduction in the possibility of income splitting through a spousal RRSP.

In the *White Paper*, the government conceded that the spousal exemption creates a disincentive to outside work. Indeed this was cited as one of the reasons for changing the exemption to a credit. Conversion would lessen the disincentive effects, but it would by no means eliminate them. This author recommends strongly that the spousal exemption be reduced considerably and, at the least, be made a fixed benefit payable to homeworkers caring for their children or for elderly or disabled family members. A word of caution is appropriate. This analysis assumes that entering the outside work force is an alternative, not an addition, to household work. It does not take into account the double workload often borne by women who enter the paid labour force. (Work in the home drops from about 60 hours per week to 40 hours per week, for a net increase of 20 hours of work per week when a woman begins to work outside the home). Nor does this type of analysis take into account, as Kathleen Lahey so aptly points out, "the impact of substituting purchased services for non-wage productive labour on the quality of life."[22]

■ **Transfer of unused credits**

The same criticisms can be aimed at the transfer of unused deductions between spouses.[23] If one spouse is unable to use certain types of tax relief (because of insufficient taxable income) the Act permits the other spouse to use them as deductions from his or her taxable income. The provisions include the pension deduction, the disability deduction, and the student living allowance. The *White Paper* proposed that tuition fees be added to this list. Again, the cost of losing these transfers has to be factored into the decision to work inside or outside the home. The difficulty would be reduced by the *White Paper* proposal to convert these deductions to credits but again, the problem would not be solved completely. The extent of the problem varies according to the taxable income of the husband and the extent to which the wife is eligible for the deductions.

Finally, mention should be made of the spousal registered retirement savings plan although, strictly speaking, it does not fall under the heading of transfer of unused credits. There is a tax provision allowing a spouse (usually the husband) to put funds into a spousal RRSP plan as part of his own tax-deductible contribution.[24] The purpose of the provision is to enable the husband to ensure that his homeworking spouse has a retirement income.

However, in practice, this is not the way the provision is used. Because the funds need to remain in the plan for only three years before they will be taxed as the wife's income on withdrawal, they are a simple method of income splitting. The husband gets a tax deduction for the payment, and when the funds are withdrawn from the plan, they are taxed as the wife's income, provided they were in the plan for at least three years. Obviously this would not be a tax benefit unless the wife did not work outside the home or earned considerably less than her husband. Accordingly, the scheme may represent an additional disincentive to work outside the home. Because the provision serves a useful purpose, however, it should remain in place, though slightly amended. The most appropriate change would be to tighten the deposit requirement. A seven-year deposit period or the date of the spouse's retirement, whichever is earlier, should replace the current three-year period. If funds are withdrawn

prior to this date, they should be subject to tax penalties or interest on the late payment of tax.

- **Refundable credits: child tax and sales tax**

Both the child tax credit and the sales tax credit, although much needed, impose costs on the woman as the secondary worker. Both provisions determine eligibility by reference to gross household income. Therefore, if household income is at or near this amount, any additional income earned outside the home will reduce the tax relief available dollar for dollar.

The appropriate change in this case is far from clear. There are good reasons for limiting eligibility for these provisions. In times of scarce resources, funds must be allocated to those most affected by the regressivity of taxes (in the case of sales tax) and those most in need (in the case of the child dependency provisions). Yet these provisions might militate against a decision to increase the income of a low-income household by inhibiting the secondary worker from entering the work force. The increase in the sales tax credit proposed in the *White Paper* (from $50 to $70 per adult and from $25 to $35 per child) would accentuate this effect. Even so, at present the amounts are so low that it is not likely to have any real impact. However this situation could change if a broad-based sales tax is introduced, because the government has promised to increase the amount of the refundable sales tax credit and extend the relief to a great many more families. The impact of these changes could be considerable, depending, of course, on the extent of the increase.

- **Attribution rules**

There are tempting tax advantages to be gained (in a progressive income tax system) by a high-income earning spouse splitting off the top part of her or his income and transferring it to a spouse with a much lower or no income. An illustration may help. If Mr. Andrews has $70,000 taxable income per year, his federal tax liability will be $17,967 (at 1987 tax rates). However

if he transfers ownership of a rental property earning an income of $35,000 per year to Ms. Andrews (his wife, who does not work outside the home), they would be able to split the tax bill, each paying taxes on an income of $35,000. Because incomes of $35,000 are taxed at a lower rate than $70,000 incomes, each would pay $7,298 in taxes, resulting in a net savings of $2,701. The savings would be smaller in the future if tax rates were reduced. (The *White Paper* proposes reducing the top federal tax rate from 34 per cent to 29 per cent.) However, the example does not take into account provincial taxes, which would increase the tax payable and the tax savings.

The attribution rules[25] attempt to nullify the tax effect of transactions that attempt to achieve such income splitting by transferring property from one spouse to the other. When property is transferred at less than the fair market value, any income subsequently arising from it is taxed in the hands of the spouse who transferred the property, even though legal title to the property remains that of the spouse who received the property. Similarly, any capital gains taxation liability arising on the subsequent sale of the property will be levied on the spouse who transferred the property. Special exemptions are available for the transfer of property on separation and divorce.

Whether the attribution rules should be repealed is a matter of some debate. From a woman's perspective they could work detrimentally by deterring husbands from transferring property during the existence of the marriage. If the rules were not in force there would be a significant incentive for husbands to transfer property to their wives in order to save taxes. Although the motive may not be honourable, the results would be desirable, placing more property in the hands of wives during marriage. There is some evidence that this would happen. Before the tax rules were amended in 1981 to restrict the principal residence capital gains exemption to one house per family, many second homes were transferred to the sole ownership of the wife. Similar results will no doubt ensue from the $500,000 capital gains exemption, even if it is reduced to $100,000 as proposed in the *White Paper*. Property will be transferred to spouses to ensure that both are able to use the full exemption.

Even though abolishing the attribution rules could have beneficial effects for women, it is difficult to recommend their repeal for a number of reasons. The first and most important is that repeal of the provisions would benefit wealthy taxpayers overwhelmingly. It would be hard to justify the loss of millions of dollars in tax revenue from the top 5 per cent of income earners in the population. The money could be used to benefit many more women and in a useful way, for example, by providing adequate funding for child care. Furthermore, any gains to be made from encouraging the transfer of property between spouses are probably highly overstated. Although legal title might be transferred, it is quite likely in most cases that control would remain in the hands of the husband.

The present rules in section 73 allowing tax-free transfers of property between spouses should, however, be staunchly defended. Usually when property is transferred from one person to another, capital gains tax is payable if the property has risen in value since it was purchased. However if the people are husband and wife, these provisions ensure that no tax liability arises when property is transferred between them. It is imperative that the Act not discourage transfers of property during marriage. The recent amendments to the attribution rules, excluding from their ambit transfers of property between spouses at fair market value, is another move to be welcomed.

Child Expenses

There are two types of expenses involved in raising children, dependency expenses — costs incurred in providing adequate food and clothing for children — and child-care costs, incurred as a result of both parents or an unmarried parent working outside the home. Both types of expenditure are subject to much the same analysis, although there are important differences between them.

■ **Child dependency costs**

Child dependency costs are recognized in the Act in two provisions: the refundable child tax credit[26] and the exemption for dependent children. The child tax credit allows the taxpayer a credit of $489 per child, provided total parental income is less than $23,760 in 1987 (the figures are subject to indexing). Because the credit is refundable, families with insufficient tax liability to use it have the difference repaid to them. The refund is intended to be made to the mother, as the conditions of eligibility are the same as for family allowance payments. However, where the mother lives with the father, or where he still supports the child, a joint return must be made. The objective of this provision is to provide financial support for children to those families who need it. In 1983, the cost of providing this tax relief was $1.4 billion.[27]

The second provision, the exemption for dependent children,[28] would be converted to a credit if the *White Paper* proposals become law.[29] The amount of the credit would be set at $65 per child, an amount that represents 17 per cent of the family allowance payment in 1988. The parents could chose which would claim the credit, or it could be claimed by both in proportion to their expenditures. As the credit would not be refundable, the parent who works outside the home would be the one to claim the allowance. In most cases this would mean the father. If the parents were unable to reach agreement as to who should claim the credit or in what proportion, the Minister of National Revenue would apportion the credit.[30]

The proposal to convert this provision from an exemption to a credit is to be applauded. Tax relief would then be the same for all children, regardless of their parents' marginal tax rate. The amount of the subsidy would no longer be inversely related to need. Even though the equity of the provision would be improved immeasurably, this still might not be the optimum provision. Whether it is depends to a considerable extent on its purpose. What then is the rationale for a child dependency tax credit?

Interestingly enough, there is little literature on the reason for introducing the dependency provision. Yet it is expensive. In 1983 tax relief granted for child dependants amounted to $940 million.[31] Most commentators seem to agree that providing tax relief is consistent with a desire to recognize of the fact that children reduce the amount of discretionary income at a taxpayer's disposal. This affects ability to pay and accordingly should reduce tax liability. This view assumes, of course, that children are non-discretionary expenses — a view that is not shared universally. Some eminent tax experts reject this assumption, maintaining instead that children merely represent consumption decisions of their parents — decisions not much different from the purchase of a large home, a Mercedes Benz, or a luxury yacht. As such, they should not be subsidized by the state.

Tax relief for people with dependent children can be defended on two grounds. The first relates to the social good. Society has an interest in ensuring that adequate provision is made for children. If this is the motivating factor behind tax relief, it should take the form of a refundable tax credit. This would ensure that those who need the relief most actually receive it. At present if a taxpayer does not have sufficient income to attract taxation she cannot benefit from the exemption (although she may still be eligible for the child tax credit). Indeed the fairest system would be a diminishing tax credit, ensuring that those who need it most obtain the greatest benefit.

Such a system would not be necessary (although it might still be preferred) if the main reason for granting the relief was to create equity between taxpayers. Equity would be achieved between taxpayers with and those without children by recognizing the extra financial responsibilities of those with children.

To some extent this would also represent societal recognition of the need for future generations. Tax relief would act as a small encouragement, or at least as a sign that society is willing to subsidize, albeit sparingly, the raising of children. If this is the purpose of tax relief, all that is required is a suitable dollar figure to meet the aim. The figure is currently so low that it is not likely to be a factor in the decision to have children. However it might

have some slight bearing on the decision by one of the spouses to quit work after the birth or adoption of a child, because it would make up a little for lost income.

Whatever the reason, tax relief for people with dependent children is a good idea. There are costs associated with raising children, and governments should recognize the important function that parents are fulfilling on society's behalf by rearing children. Some of those expenses should be shared by all taxpayers, not just those with children. It would make sense, however, to skew the subsidy in favour of those who need most help with their expenses. The *White Paper* proposes one step in this direction by converting the exemption to a credit, ensuring that all taxpayers with the same number of children receive the same tax benefit. Further changes are warranted. In particular the credit should be extended to people who do not earn enough money to be taxed. This could be achieved simply by making the credit refundable. In addition, a diminishing credit would ensure that the subsidy for children is weighted in favour of those who need this type of relief most, particularly single parents, who are most often women. Furthermore, it would enable mothers who do not work outside the home to claim the credit.

■ **Child-care costs**

Although many of the arguments supporting tax relief for child-care expenses are the same as for dependency costs, there are also additional considerations. Relief for child-care costs can be defended on the grounds of women's equal right to participate in the labour force or, alternatively, as recognition that the substantial child-care expenses incurred by mothers working outside the home can significantly distort decisions about whether to accept paid employment.

A woman who is considering working outside the home has to factor into the decision the extra costs that will be incurred, including transportation, clothing, additional taxes and, most important in terms of the size of the expense, child-care costs. If the woman is only able to work part-

time or works full-time in a low-paying job, these extra costs may make the decision to work outside the home economically irrational, thus biasing the decision in favour of staying at home. Tax and other provisions that influence this decision therefore have the effect of reinforcing sexual stereotyping and roles within families. These costs must be eliminated or lessened to the extent possible through subsidies or tax relief.

Child-care costs, as a major expense, must be included in this relief. This could be done through direct tax relief for the mother (or secondary worker) to cover the child-care costs incurred by her while working outside the home. The Act does this, in a somewhat miserly way, by allowing a deduction of $2,000 per child per year to a single parent or to the spouse earning the lower income.[32] Expenses for up to four children may be claimed.

The amount of the tax relief is inadequate: $2,000 is not nearly sufficient to cover the yearly costs of child care. A more realistic figure should be introduced. A maximum amount should be imposed, however, to ensure that expensive preferences are not covered — for example, a live-in nanny (although this is not always the most expensive choice if the number of children is taken into account). Three-quarters of the cost of an average child-care centre of good quality would be an appropriate maximum. Furthermore, tax relief should be in the form of a credit to ensure that all women are equally subsidized for child-care costs, regardless of the amount of income they earned. The dollar figures should also be indexed to ensure that the value of the subsidy is not eroded in periods of high inflation.

Another way to reduce the burden of child-care costs through the tax system is to give tax incentives to employers for providing child-care facilities. This could be achieved by granting accelerated capital cost allowances for the purchase of capital assets used in the child-care facilities. The provision of subsidized child care facilities for employees should not be taxable, however, as an employee benefit.

Normally, providing incentives through the tax system in this way is considered inadvisable. Tax incentives are notoriously inefficient. The costs are difficult to calculate, the benefits hard to evaluate, and there is usually little, if any, control over the extent or use of the subsidy. It would undoubtedly be preferable to institute government-supervised child care so that there would be quality control and accountability for the use of subsidies granted. However, in the absence of movement in that direction, incentives to employers may provide some relief in the interim.

Alimony and Maintenance Payments

Another set of tax provisions that can affect women detrimentally are those dealing with alimony and maintenance payments.[33] These are payments made by one separated or divorced spouse to the other under a court order or by virtue of a separation agreement.

The provisions operate simply but unfairly. The spouse who is paying (usually the husband) is allowed to deduct from taxable income the full amount of all qualifying payments made to the ex-spouse and/or the children. The recipient (usually the wife) is required to include these payments in her income and is taxed on them at her marginal tax rate.

There are a number of deficiencies in this arrangement, all working to the detriment of the recipient. It is not clear why these payments should be taxed in any event. During marriage the wife is not subject to tax on money received from her husband for subsistence. These types of payments certainly do not fall within the usual concept of source used in the *Income Tax Act* to define income. Other unearned income, such as inheritances and gifts, is not taxed. The real reason that these payments are taxed in the hands of the recipient is, of course, because they are deductible expenses for the payer. While the Act requires some kind of reciprocal arrangement, the question of why the payments are deductible begs examination. During the existence of the marriage there is no similar treatment. The only comparable tax relief is the spousal exemption, which is often small in comparison to court-ordered payments upon

separation or divorce. Why, then, introduce additional deductibility when the same couple divorces? Why does an Act that specifically prevents income splitting during marriage actually provide for it when the marriage has ended?

One possible rationale is that the deduction creates a much-needed incentive for the payer to make the payments. Yet the non-payment of court-ordered alimony and maintenance payments, estimated at 85 per cent, is a significant problem, despite the existence of these tax provisions. Clearly they are not working. There are other less pleasant, but perhaps more effective ways of ensuring that payments are made — for example, the recent Ontario law enabling the government to garnishee the wages of delinquent payers.

This subsidizing of divorce through tax deductibility is expensive (estimated at $95 million in 1983[34]) and unnecessary. It should be replaced by a tax credit equivalent to the spousal exemption (if any) or slightly higher to take into account reduced ability to pay and the fact that two can live more cheaply than one. As a corollary, alimony or maintenance income should not be included in the income of the recipient for tax purposes.

If these changes are not made, consideration should be given to allowing lump-sum alimony payments to be eligible for tax credit. Currently only periodic payments are deductible, which encourages monthly or other periodic payments. However, periodic payments have the tendency to reinforce and maintain the financial dependency relationship between the spouses. It would be far better to encourage complete independence; the funds necessary to realize it might be more readily forthcoming if lump-sum payments were eligible for tax relief. Moreover, because lump-sum payments are made on separation or in installments shortly thereafter, they may reduce the delinquency rate for non-payment. This change in the law would primarily benefit wealthier taxpayers, who are more likely to have sufficient funds to make large lump-sum payments. There would also have to be a cap on the deductible amount to avoid subsidizing divorce excessively. Furthermore, the full deduction should not be allowed in the year the payment is made but should instead be spread over a five-year period.

A more overtly discriminatory effect of these provision concerns the treatment of child-support payments. Not only can the recipient of support payments not deduct her expenses in supporting the child, but she must also include in her income and be taxed on the child-support payments made by the ex-spouse. This is far from fair and is without justification. Child-support payments should not be included in the income of the recipient. Moreover, if these payments remain deductible for the payer, the recipient must be given an equal or, in the case of an imposed maximum, a proportionally shared right to deduct expenditures made on behalf of the child.

Finally, mention should be made of the bias in these provisions toward helping wealthy males pay their alimony. As a deduction, the tax provision regarding alimony is of greatest benefit to payers in the highest tax brackets. There appears to be no rationale for this preferential treatment. The deduction should be converted to a credit in the same way as has been proposed for personal exemptions. Furthermore, at present there is no limitation on the amount that can be deducted, provided it fulfils the necessary prerequisites, especially those of "periodic" and "maintenance". The concept of maintenance has been construed flexibly by the courts to mean the standard of living enjoyed prior to marriage breakdown. This is and should be an important consideration in determining the amount of alimony or maintenance that should be paid on divorce, but it is an inappropriate criterion for determining tax subsidies. The amount of the subsidy varies according to the difference between the marginal tax rate of the husband and that of the wife, but it is still a subsidy that could be used more constructively and appropriately to give relief to single parents, usually women. Accordingly, a cap should be set on the tax credit allowed for these payments.

Women as the Poor

The way income tax provisions affect the poor are extremely important, perhaps especially so to women who are disproportionately represented among the poor. In 1985 the National Council of Welfare estimated that the poverty rate for unattached women was 41.9 per cent, compared to 30.5 per cent for

unattached men. Single-parent families headed by women are also far more likely to be poor — 46.7 per cent were below the poverty line, compared to only 9.6 per cent of families headed by men. The trend continued into old age, with half of unattached elderly women living below the poverty line, compared to only one-third of unattached men.[35] Thus the feminization of poverty appears to be continuing unabated.

How does the income tax system discriminate against the poor? One of the most obvious ways, recently recognized by the government in the *White Paper*, is by providing tax relief or incentives in the form of deductions rather than credits. Deductions give the largest tax breaks to wealthier taxpayers, who have higher marginal tax rates. Tax credits, on the other hand, give the same amount of relief to all taxpayers. When the goal of a tax provision is to create an incentive for certain types of activity or to provide relief, the incentive or relief should be given in the form of a credit and, in appropriate cases, made refundable. This would not only increase equity by giving all taxpayers the same relief, regardless of taxable income, but would also provide additional income for less affluent taxpayers. The increased costs associated with implementing this proposal could be funded by reducing the amount of relief available to taxpayers in the highest tax brackets.

Even though the government recognized the inequity of using deductions rather than credits, they acted too cautiously, proposing to convert only the personal exemptions and certain deductions to credits. The deductions were pension income, tuition fees, education, medical expenses, and charitable donations. While this is a step to be applauded, the government could have, and indeed should have, made the list more extensive. Other deductions that should be converted to credits are alimony and maintenance payments, contributions to registered retirement savings plans and registered pension plans, child-care expenses, and moving expenses.

This is of particular importance in the case of RRSPs, where the deductible amount is to rise to $15,500 per year by 1994. It is unlikely that many low-income taxpayers will have anywhere near this amount to invest in RRSPs, so the provision is heavily biased in favour of high-income taxpayers. The

rationale for the increase is that taxpayers must be encouraged to save for retirement. It is unlikely that people with an extra $15,500 to invest each year will go hungry in retirement. The tax expenditure on the subsidy would be far better spent providing funds for pension plans for less wealthy taxpayers. In 1983 the total cost to the government of the RRSP and registered pension plan (RPP) deductions was $4.9 billion. This was at a time when the RRSP/RPP deduction was limited to $3,500 for people whose employers had pension plans and $5,500 for self-employed people and others without employer-sponsored plans.

Other provisions in the Act also give disproportionate benefits to wealthier taxpayers. The rate reductions proposed in the *White Paper* are, for the most part, most beneficial to high-income earners. It is commendable that 850,000 people will be removed from the tax rolls if the *White Paper* proposals become law, but as many commentators have been quick to point out, these very people were added to the rolls for the most part as a result of previous budgets of the Progressive Conservative government.

In addition, the retention of the capital gains exemption as proposed in the *White Paper* is disappointing. Reducing the amount from $500,000 to $100,000 should not obscure the fact that taxpayers who are eligible for capital gains will have tax-free income of $100,000. Unfortunately, statistics are not available to reveal the use of the capital gains provisions on the basis of sex, but it would not be outlandish to estimate that the provisions are used far more by male taxpayers than by females. Why should we accept government proposals that will have the effect of increasing income disparities by relieving those who need it least of the obligation to pay taxes? Moreover, the disproportionate benefits for male taxpayers still ensure that men retain control of the nation's resources and with it economic and political power. Much the same analysis could be applied to the reason for and consequences of omitting inheritances and gifts from the tax base. This is income that should be taxed but is not under the present income tax system.

Finally, mention should be made of the *White Paper* proposal to abolish the $500 employment expenses deduction. This will be detrimental to women entering the work force. As already mentioned, there are significant additional

costs involved in working outside the home; the start-up costs can be particularly steep. One measure that gives tax relief for some of these extra costs is the employment expenses deduction. The proposed elimination of this deduction could be another negative factor in decisions about whether to work outside the home. The provision could be reintroduced on a more selective basis. An employment expense credit should be allowed for the taxpayer's first three years in the labour force, whether the taxpayer is entering for the first time or re-entering after an absence of two years or more. If equality of opportunity is one of the goals toward which society is moving, the figure could be increased to cover all the start-up costs that women in particular must factor into the decision to enter and re-enter the outside work force. Again, tax relief should take the form of a credit rather than a deduction.

CORPORATE TAX REFORM

The corporate tax reform proposed in the *White Paper*, like the personal income tax reform proposals, was not as fundamental as had been anticipated.

Women as Employees

The *White Paper* proposed reducing corporate tax rates to encourage investment. Offsetting some of the costs to the government of the rate reductions would be measures eliminating or minimizing certain corporate tax breaks. The special tax deduction for small manufacturing firms would be removed. Depreciation allowances would be lowered for certain items, hitting capital-intensive industries, especially the manufacturing sector, rather than labour-intensive industries. As over three-quarters of women who work outside the home work in the tertiary sector,[36] this is good news for women. The tertiary sector includes transportation, communication and other utilities, trade, finance, community, business and personal services, and public administration. All these industries tend to be more labour- than capital-intensive.

However, the news is not all good. The industries that would be hit hardest by reform, especially if sales tax reform is introduced, are the financial, insurance, and real estate sectors. Women are heavily represented in these sectors (albeit in low-level occupations). However, it is not likely that the measures will have a negative impact on employment prospects in these industries. If layoffs occur, they are more likely to be caused by the widespread use of bank cards and machines than by changes to the corporate tax system.

Women as Entrepreneurs

Women who are self-employed, particularly those working from their homes, may be affected adversely by the *White Paper* proposals. Many women work from their homes to reduce costs when starting a new business. The proposals for stricter requirements regarding tax deductions for home offices may have detrimental consequences for these women. Undoubtedly there has been abuse of the provisions, and a more stringent regime is required. Women will have to inform themselves about the new rules in some detail to ensure that they are not deterred from claiming legitimate and necessary expenses.

To claim the home office deduction in future, taxpayers would have to show that the space claimed is used exclusively for business. Furthermore, it would have to be either the principal place of business or a place where clients or customers are met regularly. Once these tests have been met, the extent and type of deduction remains the same. For example, a portion of rent or mortgage interest, property taxes, insurance, utility bills, and maintenance and repair charges, as well as a capital cost allowance (depreciation) can be claimed as legitimate expenses against income. The one new limitation proposed is that expenses may be claimed only against income earned from the business carried on in the home office. They may not be carried over and deducted, as in the past, from other types of income, for example, employment income.

Finally, proposed sales tax reform is likely to increase the costs of starting up a business. At the time when cash is needed most, start-up would be higher because sales tax would be payable on many items required to set up

a business. Furthermore, the cost of collecting the tax could be difficult to accommodate, especially in the initial stages of a new business. How much this will add to costs will depend to a considerable extent on the administrative method chosen and the amount the government would be willing to pay small businesses to help defray the costs of administration.

On the bright side, however, the Department of Finance has estimated that the cost of business capital equipment and supplies would be reduced by 4 per cent. This is because the *White Paper* proposals would enable businesses to reclaim the full amount of tax paid on business inputs, such as office supplies, building materials, and many types of non-production business machinery and equipment that are currently taxed with no refund available. Furthermore, the federal tax rate for small businesses would be reduced from 15 per cent to 12 per cent.

SALES TAX REFORM

Fundamental sales tax reform is the major plank in the *White Paper* proposals, although implementation of any reform in this area will not take place until at least 1988. Mr. Wilson considers that "sales tax reform is an opportunity to strengthen economic growth in Canada and improve tax fairness".[37] It is unlikely to fulfil the first of these goals and certain not to fulfil the second. Prior to examining the specific proposals, it might be useful to place sales taxes in perspective and to comment on how they relate to the personal income tax system.

Sales taxes account for a major portion of the taxes paid by the average person and a significant percentage of government revenues. For example, in 1961 it was estimated that sales taxes accounted for 15 per cent of government revenues, while personal income taxes accounted for 23 per cent. In 1984, the figure was still high, although it had fallen a little, to 12 per cent, and personal income taxes had risen to 33 per cent of revenues.[38] The balance of tax revenue is generated from import duties, property taxes, social security

taxes, liquor, tobacco and amusement taxes, corporate profits tax, auto and fuel taxes and licence fees, and natural resources and other taxes.

Once the tax reform proposals become law, these figures will change substantially. Consumption taxes will play a significant role in government revenues and will increase as a percentage of the taxes paid by the average Canadian. The government intends to recoup the loss of revenue dollars resulting from the changes to the personal income tax system, especially the rate reductions, by introducing a broad-based multi-stage sales tax. This tax is designed to replace the existing federal sales tax, the Manufacturers' Sales Tax.

Manufacturers' Sales Tax

One reason for the change is the unwieldiness and unfairness of the manufacturers' sales tax (MST). In existence since 1924, it has little to commend it. Its application tends to be arbitrary and its administration costly. The original intention of the MST was to ensure than goods were taxed at only one point in the distribution chain from producer to consumer. To achieve this, manufacturers are given licences that allow them to buy goods tax-free. The manufactured goods become subject to tax when sold to non-licensed firms, such as wholesalers. The tax is generally applied to the first sale of manufactured goods in Canada.

The tax base for the MST is small and illogical. Only a third of all goods and services are caught by the tax. Over the years various exemptions and amendments have been made, so much so that 22 different levels of tax now exist (if tobacco and alcohol are included), ranging from 0.6 per cent for pharmaceuticals to 6.7 per cent for motor vehicles. A 1984 study found that no two products (among 660 different commodities surveyed) bore the same effective rate of tax.[39] This was true even of similar goods made in the same industry by different manufacturers. For example, the effective rate of tax on household textiles ranged from 3.95 per cent to 11.70 per cent. Cosmetics were even more erratic, ranging from a high of 17.08 per cent to a low of

5.15 per cent. The level of tax that is paid has come to depend more on how the corporation is structured than on the type of goods manufactured and sold. Such a system is obviously inequitable. It disadvantages manufacturers who pay higher taxes on the same goods, therefore reducing their competitiveness. MST is also levied on capital inputs. Furthermore, it is structured so as to favour imports. Consumers are also treated unfairly and unequally, paying radically different rates of tax for similar goods.

In addition to the MST, there is a plethora of excise taxes and duties, which adds considerable complexity to the overall system of sales taxes. This brief outline makes it clear why the MST should be replaced. Less clear is the reason for replacing income taxes with sales taxes.

Income Taxes or Sales Taxes?

Why then the proposal to shift from income tax to consumption taxes? There is no quick or easy answer. Little commends the imposition of sales tax rather than, or even to supplement, an income tax measured on equity grounds. There is also support for the view that it may not be the most economically efficient method of taxation.[40]

- **Equity considerations**

Income tax is the fairest method of imposing tax. Income is the best measure of ability to pay and allows more flexibility so that a taxpayer's individual circumstances can be taken into account. Equity is enhanced both horizontally and vertically. Taxpayers with the same incomes and the same number of dependants pay the same tax.

Sales taxes do not have these advantages; in fact, their effect is quite the reverse. People with the same incomes are taxed very differently, depending on the purchases they make. Accordingly, sales taxes penalize the person who spends and favours the person who saves or, perhaps more accurately,

the taxpayer who can afford to save. Most people have little choice in the matter, as they are required to spend all, or a large proportion, of their income in order to maintain their standard of living. This is most apparent in the case of the poor and large families. Sales taxes also discriminate against people who live in high-cost urban areas.

A broad-based sales tax cannot be made progressive unless high and graduated refunds are made to consumers. The greater these are, the less effective the sales tax becomes as both a net revenue raiser and a simple system to operate, which are its main advantages in the first place.

With these comments in mind, the proposals outlined in the *White Paper* for implementing a new and improved sales tax will be described and analyzed.

Multi-Stage Sales Tax

A multi-stage sales tax would, as the name implies, levy tax on all sales and, more important, at all levels. The system is straightforward. Each taxpayer in the production, processing, and distribution chain pays tax on taxable sales. However she receives an "input tax credit" for any tax paid on purchases. In its simplest form, liability for the tax is calculated by taking taxable sales made by a business during a given period, multiplying by the tax rate, and subtracting any tax paid on business purchases.

An illustration may help to clarify how it works. Ms. Dice has a furniture business. In 1989 she purchases wood and other supplies on which she pays $3,000 in taxes. In the same time period she also sells furniture worth $50,000. If the tax rate is 10 per cent, the amount of sales tax she would have to remit to the government in 1989 would be $5,000 (10 per cent of $50,000) minus $3,000 (the input tax credit), or $2,000.

The tax operates like a retail sales tax paid at all levels, with the burden of the tax ultimately borne by the customer. As the proposed tax would be a tax on domestic consumer expenditures, it would apply to imports but not to exports.

The person liable for the tax is the person carrying on business ("the taxable activity"). Tax is levied on "taxable supplies". The term taxable supplies was coined deliberately to encompass a far wider range of items than "goods" would imply. It would cover many transactions, including any sale, transfer, lease or disposition of property and any provision of services.

Exemptions from the multi-stage sales tax could be made, depending on the scheme adopted. There are two possible types of tax-preferred goods: tax-free and tax-exempt. Tax-exempt goods would relieve the vendor of all liability to pay tax. However, input tax credits could not be claimed for taxed purchases acquired for use in making tax-exempt supplies. This type of exemption is most often used to help small businesses and the non-profit sector. It could, however, operate detrimentally if the vendor purchased many taxed supplies, because no credit could be claimed on them. Tax-free or "zero-rated" supplies, on the other hand, would not be taxable, but the vendor would be able to claim input tax credits on purchases used to make them. Exports would undoubtedly be given this designation, as would any other goods or services for which the government decided to remove tax liability, such as food.

The Options

The government has outlined three options for implementing a multi-stage value-added tax:

- a federal goods and services tax;
- a federal value-added tax; and
- a national sales tax.

All three options involve essentially the same tax (a consumption tax) and differ

only with respect to the flexibility of application, the number of governments sharing in the revenue proceeds, and administrative complexity.

- **Federal goods and services tax**

A federal goods and services tax (GST) would be applied to virtually all goods and services at a uniform rate. As the tax would be comprehensive, businesses would have the option of including the tax in their prices or setting it out as a separate amount and applying it at the time of purchase.

The GST is seen as the better of the two federal options because it is easy to administer. Compliance costs would be low because businesses should be able to determine their tax liability for a tax period using information from account books already maintained. Without the need to calculate the tax separately on each invoice, the tax would likely be included in retailers' selling prices and would therefore be invisible to consumers. Provincial retail sales taxes would then be applied to the total, as is now the case with existing federal and provincial taxes.

This is a simple system. It minimizes exemptions, uses a single rate, and does not present problems of co-ordinating two separate sales tax systems at the retail level. The *White Paper* proposes that, under a GST, a tax collection fee would be included to compensate small businesses in part for the costs of compliance.

The major disadvantage of a federal GST is that it does not provide the flexibility to exempt specific products or sectors of the economy. This is feasible only under a system with tax invoicing.

■ **Federal value-added tax**

This would be a more sophisticated but complex form of sales tax. The main difference is that it would allow greater flexibility in deciding which goods to tax. The disadvantage is that it would increase compliance costs considerably, because businesses would require invoices to substantiate their input credit claims. This system would require that the tax be added separately at the time of sale, making it visible to consumers. It would presumably be less desirable politically because the taxpaying public would know the full extent of the increase in taxes as a result of sales tax reform.

■ **National sales tax**

This form of sales tax is designed to create a common tax base for federal and provincial sales taxes. Yet it is flexible enough to allow for variable provincial tax rates. The federal rate would remain the same in all provinces. In essence, the system would resemble the current arrangements for personal and corporate taxes. To accommodate variations in the combined federal and provincial rate, a national retail sales tax would be levied in the province in which the goods or services are consumed. The combined rate of tax applicable to a particular sale would therefore be determined on the basis of the destination to which the goods were shipped or place where services were consumed.

Again, this would mean a broad tax base. A national sales tax system would also require invoicing to facilitate the calculation of tax liability and input credits; this would cause administrative complexity and costs. In order to allocate tax revenues between the provinces, for example, businesses would have to keep records of sales and purchases by province and report tax on that basis. These concerns would be offset by the obvious advantages of the system: a single co-ordinated system would simplify compliance significantly. Overlap and duplication between federal and provincial tax administrations would be eliminated. The potential for cascading or pyramiding (paying provincial tax not only on the product purchased but also on the federal tax levied on it) would also be eliminated.

For example, if a consumer bought a carpet valued at $400, which attracted a federal sales tax of 10 per cent ($40) and a provincial tax of 5 per cent ($20), she would pay total sales taxes of $60 if the two systems of sales tax were co-ordinated. If the systems were not co-ordinated, she might instead pay provincial tax on $440 (the cost of the carpet plus the federal sales tax), which would result in provincial tax of $22 — an increase of two dollars. Although the amount in this example is small, the result over a year of purchases could be extremely high.

Analysis

Whatever form the sales tax reform takes, it should not be forgotten that sales taxes are very regressive. The extent of the regressivity is subject to three variables: the rate of tax imposed, the extent and types of exemptions, and the amount of any payments made to those at the bottom levels of the income scale to reimburse them for taxes paid. The *White Paper* does not name the proposed sales tax rate but uses the figure of 8 per cent to illustrate effects. In most European countries that have value-added taxes, the rate tends to be approximately double this figure. It is likely that the rate will be quite high, thus causing greater regressivity, the worst effects of which will have to be offset by exemptions from the tax base, for example, food and/or large transfer payments to low- and middle-income earners delivered through the personal income tax system.

■ **Exemptions or credits?**

The *White Paper* argues in favour of refundable sales tax credits rather than exempting certain items from sales tax. Food is the most obvious candidate for exemption from the tax base if the tax is to be less regressive. The government argues, rightly, that exempting food will give higher-income earners a larger tax concession than lower-income earners. Rich people purchase larger quantities and more expensive foods. People with incomes below $25,000 purchase 36 per cent of all food consumed at home, while those in the $40,000-

plus income group purchase 31 per cent (even though they are a substantially smaller group).[41]

However, food and shelter expenditures account for a much larger proportion of a low-income family's annual income than is the case with high-income families. Food accounts for 22 per cent of total expenditures in low-income families, but only 12 per cent in the families with the highest incomes. Average expenditures for all families were 15 per cent. In dollar figures the families with the highest incomes spent considerably more — $2,186 per person per year, compared to $1,580 for the families with the lowest incomes.[42] The Department of Finance has estimated that 64 per cent of the savings resulting from exempting food from sales tax would accrue to Canadian households with annual incomes greater than $25,000 (who make up only 50 per cent of the population).[43]

Accordingly, in dollar terms the government is correct in suggesting that a food exemption would benefit higher-income families most. But if the savings are measured as a percentage of total income, the result is different. Most economic studies show that taxing food does increase relative regressivity. Moreover, the greater absolute burden placed on the lower-income groups by including food is substantial.[44] Only very generous tax credits could alleviate the real effect of the burden placed on the poor by the taxation of food.

Thus, a good case can be made for exempting food from sales tax to reduce the unfairness of the tax on the poor. Which other items, if any, should be exempted is less clear. Goods or services are excluded from the tax base for a variety of reasons. These include social policy reasons (for example, medical services), political pressure (legal services), legal and administrative reasons (foreign travel), and economic incentives (exports). Allowing most of these exemptions would have the effect of making the tax more regressive, because most of these services or goods are more likely to be purchased by high-income earners.

As a result, exempting most services and goods, other than food, would probably not lessen the regressivity of the tax very much. Furthermore, any exemptions from the tax base will decrease revenues and increase the complexity of the tax. This, in turn, will increase the unfairness between consumers and the costs of compliance.

On the other hand, exemptions might be fairer than a tax credit system because they do not require people to take special steps to receive the benefit. Many people who are eligible for benefits may not apply and hence may lose out. Exemptions also achieve horizontal equity more readily as they can reflect more accurately the comparable needs and expenditures of families. Families with the same incomes and the same number of children may not need the benefit to the same extent. For example, families with older children are likely to spend more on food than families with toddlers. Exempting food from sales tax would allow this to be taken into account, because the benefit received would depend on the amount of food purchased. A tax credit would give the same benefit to both families. However, exemptions could not take into account the financial means of the family, treating only equal consumers of food equally. It could not differentiate between those families that could afford to buy the food and those that could not.

Extending the refundable tax credits delivered through the personal income tax system would be one way to solve this problem. Currently, the government refunds money to lower-income Canadians to reimburse them for some of the sales taxes they have paid during the year. The amount paid depends on the number of people in the family and total family income. The tax credit is $75 per eligible adult and $35 per child in families where marital income does not exceed $15,000.[45] This is the method preferred by the government.

A refundable tax credit system has several advantages. It can be specific, giving funds to those who need them most and who have been affected most adversely a tax. Accordingly it is efficient and relatively cheap. As refunds can be paid on a declining scale, a credit system can also make the tax system more progressive than blanket exemptions would achieve.

There are, of course, disadvantages. It complicates the system. In particular, it shifts the cost of compliance to the low-income consumer, who must fill in the appropriate forms to be eligible. Many eligible people may not apply. To the extent that they do not, the system fails. In addition, using family income to determine eligibility invades privacy by requiring both spouses to reveal the amount of income earned during the year. In practice this is likely to be an invasion of the wife's privacy, as it will usually be the husband who applies for the credit. The husband will also receive the refund for all the family, including the wife, although she may have made most of the purchases.

Tax credits of this type also impose opportunity costs on the wife, making it less likely that she will work outside the home. If the effect of going out to work would be to lose sizeable tax relief, then it is less likely that this choice will be made. Giving tax relief in this way could also result in financial hardship. Purchases have to be made throughout the year, often on very tight budgets. Tax would have to be paid at the time of purchase, but would not be refunded until, at the earliest, April 30 of the following year. This might mean a rise in tax discounters, who give the refund much earlier but often at the cost of exorbitant interest rates. Unless payments were made frequently — monthly or bi-monthly — most of the tax refunds might end up in the hands of unscrupulous tax discounters, not the hands of the poor. Yet introducing frequent payments would raise administrative costs. It might, however, herald the start of a negative income tax system, with social assistance and other benefits delivered through the income tax system in the form of a guaranteed annual income — an idea whose time has arrived. Finally, refundable sales tax credits should be indexed to ensure that their value is not eroded in times of high inflation. Moreover, a commitment should be obtained from the government to increase the value of the tax credit when the sales tax is increased. It is easy to attempt fairness when introducing a tax, less so when the tax has been in operation for a number of years.

■ **Women as entrepreneurs**

Women who are starting out in business on their own may be affected by the introduction of a new sales tax. Start-up costs will be increased. Although taxes paid on goods could be reclaimed later, this would not solve the cash flow problems that new businesses often encounter.

Administering the system could also be time-consuming and costly; the effect would be greatest on small businesses. The extent of the difficulty would depend on the system adopted and, more important, the amount the government was prepared to compensate small businesses for the time spent collecting and remitting taxes.

CONCLUSIONS AND RECOMMENDATIONS

This paper has reviewed the taxation system in the light of its avowed goals and recent proposals for tax reform. Some of the *White Paper* proposals represent welcome and much-needed reforms. The conversion of the personal exemptions and other deductions (pension income, tuition fees, education and medical expenses, and charitable donations) to tax credits has been long awaited and would add considerably to the fairness of the tax system. Similarly, the elimination of 850,000 taxpayers from the tax rolls and the reductions in personal income tax rates are also desirable. Increasing the amount of capital gain subject to tax, from the existing one-half of the gain to two-thirds of the gain in 1988 and three-quarters of the gain in 1989, is also a step forward.

Unfortunately, not all the *White Paper* proposals add to tax fairness. In particular, the proposal to retain the capital gains exemption, albeit reduced to $100,000, is disappointing. Moreover, the proposal for a multi-stage sales tax will increase the regressivity and therefore the unfairness of taxes considerably. The extent of regressivity will depend on the rate of tax levied, the type and extent of exemptions from the tax base, and the amount returned to consumers through refundable sales tax credits.

The changes to the income tax system proposed in the *White Paper* are far from fundamental and are, at best, incremental. When major tax reform is contemplated, it is unfortunate that the government did not take the opportunity to rid the tax system of its systemic bias against women. The tax system still falls gravely short of treating women equally. Several suggestions have been made here to make the system fairer to women; implementing some or all of these would both improve fairness and demonstrate a desire to expunge the existing male bias from the tax system.

At the very least, individual taxation should be reaffirmed as the appropriate unit of taxation. Tax should be levied accordingly and not distorted by provisions that use the marital unit to bestow tax benefits. The existence of these provisions affects the woman's (as the secondary worker) choice as to whether to work outside the home. At present there is a tax bias favouring a decision not to work outside the home, especially for women who can hope to obtain only low-paid or part-time employment. This bias arises because a family is entitled to certain tax benefits only if the woman earns little or no income. This is particularly true of the spousal exemption and the ability to transfer unused tax credits to a spouse who is working outside the home. These provisions should be amended and reduced considerably. The greater the reduction, the less the tax bias in favour of remaining outside the paid labour force. To the extent it is retained, the spousal exemption should be paid direct to the homeworking spouse in recognition of her important contribution to the household. Notions of dependency, upon which the spousal exemption has been justified historically, should be recognized for what they are: outdated and unnecessary.

Tax relief for child dependency and child-care costs was also evaluated and found wanting. If the aim of tax relief for those with dependent children is, as it should be, to ensure that children are adequately provided for and that the expenses of childrearing are given some recognition by the income tax system, the benefits should be directed to those who need them most. This can best be achieved by converting the current exemption for dependent children to a refundable credit that declines as household income rises.

The tax treatment of child-care expenses could also be much improved. Child-care costs should be subsidized on grounds of equality rights, recognizing that these substantial costs can pose a serious impediment to mothers who want or need to work outside the home. Tax relief for child-care expenses should be increased to reflect more accurately the market cost of these services. In addition, relief should be in the form of a tax credit, not a deduction, to ensure that all parents with the same expenditures receive the same benefit. If publicly funded, universally accessible child care is not introduced, consideration should be given to providing tax incentives to encourage employers to provide child care for employees during working hours. If child care is provided by employers, its value should not be included in the employee's income or taxed as an employment benefit.

Alimony and maintenance payments also present opportunities for tax reform. Indeed it is not entirely clear why these payments are deductible by the payer and taxable as income in the hands of the recipient. Money given to a wife during the existence of a marriage is not deductible or taxable. Neither are gifts and inheritances. If the reason is to recognize reduced ability to pay and, perhaps more important, to provide an incentive for (usually) the husband to make the payments, the same amount of relief should be available to all who make the same expenditures. Accordingly the provision should be converted to a tax credit. In addition, the present system, skewed as it is in favour of periodic payments, may not present the best solution. Consideration should be given to allowing lump-sum payments (subject to an appropriate maximum) to qualify for tax relief amortized over a five-year period. At the very least, child support payments made by one spouse to the other on the breakdown of marriage should not be included in the income of the recipient. The purpose of the funds is to support the child not the recipient spouse. Any deduction for child support should be split between the spouses in proportion to their expenditures or as agreed between the spouses.

The tax system has also been shown to be overly favourable to high-income earners, at the expense of low-income Canadians. Change is required to redress the balance. A first simple step would be to convert all deductions that do not relate directly relate to the cost of doing business or qualify as an

expense of earning income to credits. The list would include alimony and maintenance payments, contributions to registered retirement savings plans and registered pension plans, child-care expenses, and moving expenses. This is of particular importance in the case of RRSPs, where the amount deductible is to rise to $15,500 per year by 1994. The government should re-evaluate this proposal and consider other options for encouraging retirement savings that would benefit all taxpayers, not just those able to afford yearly contributions of $15,500. Capital gains should also be taxed fully, and the proposed $100,000 exemption should be reconsidered. The economic benefits of excluding capital gains from taxation are at best nebulous, and the unfairness of the exemption obvious.

Recognition should also be given to the high and, in the case of some women, prohibitive costs of entering or re-entering the outside job market. These costs include child-care expenses, clothes, transportation, convenience foods and, often, housecleaning services. The proposed elimination of the $500 employment expense deduction will be detrimental to all employees, but especially to those entering paid labour force for the first time or re-entering after a period of childrearing. One option is to convert the employment expense deduction to a credit and to make it available on a more selective basis. It could be limited to taxpayers entering the paid work force for the first time or re-entering it after an absence of two years or more. As a tax credit, it should be available for the first three years following entry or re-entry to the outside work force.

Finally, and perhaps most important, the government should think long and hard about sales tax reform. Although the manufacturers' sales tax is undoubtedly outmoded, unfair and in desperate need of change or abolition, the proposals for a multi-stage sales tax may not be a panacea. Indeed, extending the role of sales taxes in the taxation system may entrench inequity more deeply. Sales taxes are notoriously regressive. Low-income people must spend most, if not all, of their income to maintain their standard of living. People with higher incomes can afford to save much larger portions of their income, so that the percentage of income represented by the sales tax is appreciably smaller. If a multi-stage sales tax is introduced, consideration should be given to exempting food from the tax base, as this is likely to

make the sales tax relatively less regressive although high-income people will still receive higher tax savings in dollar terms. Appropriate and graduated refundable tax credits would therefore be required to restore the balance. In all likelihood these would have to be delivered at regular intervals throughout the year. Credits should also be indexed to ensure that their value is not eroded by inflation. Furthermore, commitments should be made to increase these tax credits as appropriate, especially in the event of future increases in the sales tax rate.

Obviously there is much to be done to rid the income tax system of its overtly discriminatory provisions, as well as its systemic bias against women. Some of the suggestions presented here are controversial. Yet this is hardly a reason for standing still. The ideas warrant debate and serious consideration. Section 15 of the *Canadian Charter of Rights and Freedoms* mandates equal treatment of the sexes. This seems to be an appropriate time to begin the long haul toward turning the ideal expressed in section 15 into reality. The income tax system, as one of the major social documents of our time, seems a valuable place to begin the discussion.

NOTES

1. Canada, Royal Commission on Taxation, *Report* (Ottawa: Queen's Printer, Ottawa: 1966), vol. 2, pp. 7-19.

2. John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971), p. 27.

3. Canada, House of Commons, Standing Committee on Finance and Economic Affairs, *Report on Tax Simplification* (Ottawa: Supply and Services, 1986).

4. *Income Tax Act*, S.C. 1970-71-72, c. 63 as amended, section 109(1)(b).

5. *Income Tax Act*, section 110.3.

6. *Income Tax Act*, section 146(8.3).

7. *Income Tax Act*, section 73.

8. *Income Tax Act*, section 54(g).

9. *Income Tax Act*, section 122.2.

10. *Income Tax Act*, section 122.4.

11. See Michael J. McIntyre, "Fairness to Family Members Under Current Tax Reform Proposals", *American Journal of Tax Policy*, vol. 4, no. 155 (1985), p. 163.

12. S.A. Rea, "Taxes, Transfers and the Family", *University of Toronto Law Journal*, vol. 34, no. 314 (1984), p. 322.

13. It is worth noting in passing that the present *Income Tax Act* favours marriage for a one-income couple; cohabitation for a two-income couple with children (both can claim the personal exemption, and one can also claim the equivalent-to-married exemption in section 109(1)(b) for one of the children); and is more or less neutral with respect to a two-income couple without children.

14. For further elaboration of this point, see Patricia Apps, *A Theory of Inequality and Taxation* (Cambridge: Cambridge University Press, 1981), p. 5.

15. *Income Tax Act*, section 109(1)(a).

16. *Income Tax Act*, section 82(3).

17. Canada, Department of Finance, *The White Paper on Tax Reform 1987* (Ottawa: 1987), pp. 29-31.

18. Canada, Royal Commission on the Status of Women in Canada, *Report* (Ottawa: Queen's Printer, 1970), p. 299.

19. Canada, Department of Finance, *Account of the Cost of Selective Tax Measures* (Ottawa: Supply and Services, 1985), table 1, p. 44.

20. S.A. Rea, "Taxes, Transfers and the Family", p. 324.

21. S.A. Rea, "Taxes, Transfers and the Family", pp. 325-326.

22. Kathleen Lahey, "The Tax Unit in Income Tax Theory", in *Women, Law, and the Economy*, ed. E. Diane Pask, Kathleen E. Mahoney and Catherine A. Brown (Toronto: Butterworths, 1985), p. 296.

23. *Income Tax Act*, section 110.3.

24. *Income Tax Act*, section 146(8.3).

25. *Income Tax Act*, section 74.1.

26. *Income Tax Act*, section 122.2.

27. Canada, Department of Finance, *Account of the Cost of Selective Tax Measures*, table 1, p. 44.

28. *Income Tax Act*, section 109(1)(d).

29. Canada, Department of Finance, *White Paper on Tax Reform 1987*, pp. 70-72.

30. *Income Tax Act*, section 109(5).

31. Canada, Department of Finance, *Account of the Cost of Selective Tax Measures*, table 1, p. 44.

32. *Income Tax Act*, section 63.

33. *Income Tax Act*, sections 56 and 60.

34. Canada, Department of Finance, *Account of the Cost of Selective Tax Measures*, table 1, p. 44.

35. Canada, National Council of Welfare, *Progress Against Poverty* (Ottawa: Supply and Services, 1987).

36. Canada, Statistics Canada, *Canada's Female Labour Force* (Ottawa: Supply and Services, 1980).

37. Canada, Department of Finance, *Sales Tax Reform* (Ottawa: Supply and Services, 1987), p. 1.

38. Sally Pipes and Michael Walker, *Tax Facts 5: The Canadian Consumer Tax Index and You* (Vancouver: Fraser Institute, 1986), p. 3.

39. Canada, Department of Finance, *Sales Tax Reform*, p. 11.

40. John Due, *Provincial Sales Taxes: Report of a Survey of Retail Sales Taxes in Canada*, Canadian Tax Papers, No. 7 (Toronto: Canadian Tax Foundation, 1953), p. 181.

41. Canada, Statistics Canada, *Family Expenditure in Canada, Selected Cities, 1984* (Ottawa: Supply and Services, 1986), p. 9.

42. Canada, Statistics Canada, *Family Expenditure in Canada, Selected Cities, 1984*, pp. 10-12.

43. Canada, Department of Finance, *White Paper*, p. 64.

44. John Due, *Provincial Sales Taxes*, p. 124.

45. *Income Tax Act*, section 122.4.